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C O N F I D E N T I A L BRASILIA 001215

SIPDIS

E.O. 12958: DECL: 09/10/2018
TAGS: PREL ENRG ECON EPET EINV BR BL
SUBJECT: Brazilian Concerns over Bolivian Gas Disruptions

REFTELS: A) Sao Paulo 0260, B)Sao Paulo 0031, C) La Paz 0462, D) Brasilia 0593, E) Brasilia 0672, F) La Paz 1905 G) Sao Paulo 0392 H)La Paz 1941

Classified By: DCM Lisa Kubiske for reasons 1.4 (b) and (d).

¶1. (C) Summary: Calling the situation "worrisome," Brazil's Ministry of Mines and Energy Assistant Secretary for Petroleum, Natural Gas and Renewables, Limo Neto, shared with Econoff the breaking news that gas flow from Bolivia was decreasing, although the majority of the supply to Brazil remains unaffected thus far. Given the Brazilian dependence on Bolivian gas, a long-term disruption in supply could have serious economic consequences, particularly with respect to industrial output. Lima Neto reported that Petrobras had been contacted by the opposition actors in Bolivia to say that they had nothing against Petrobras or Brazil and, despite the threat to Morales, would try to avoid taking actions that would be damaging. Lima Neto said his next task would be to convene a group for contingency planning. According to Lima Neto, there are already draft plans in place for how to compensate for a sudden loss of gas supply, which includes using alternate fuels to power some electrical stations, for instance liquid fuels, as well as increasing production in some of the coal powered thermal plants. Brazil has weathered a disruption in gas supply as recently as October 2007 and some additional energy sources have come online since that time. Lima Neto noted that despite some existing contingency plans, a protracted disruption in the natural gas flow from Bolivia could lead to rationing. END SUMMARY

¶2. (U) According to Brazilian press reports, the Bolivian opposition is using Brazil as a pawn in a dispute with President Evo Morales and threatening the Brazilian industrial production and electrical supply in the process. Brazilian newspapers characterize the Bolivia domestic political dispute as centering around tax funds taken from the states of Santa Cruz, Beni, Tarijia, and Pando, apparently for the purposes of funding a pension system, as well as the contested constitution being proposed by a Morales-backed Congress. During the night and early morning of September 10, in what the President of the Bolivia state gas company, Santos Ramirez, is quoted in press reports as calling a "terrorist act" protesters attempted to shut off the valves, but have thus far not succeed in completely turning off the supply, despite multiple tries. Brazil is a major purchaser of Bolivian natural gas exports, which bring in between $6-9 per million BTU (Reftel F). Fifty percent of Brazil's natural gas comes from Bolivia, with 60 percent of that coming from the Tarijia province. (Note: Protesters may have believed that Morales would be

particularly vulnerable to the threat of disruption of the commercial agreements with Brazil having learned how reliant Bolivia is on its Brazilian market when he nationalized Petrobras' plants in Bolivia and tried to unilaterally negotiate the contracts, resulting in a severe loss of income. End note.)

¶3. (C) The Ministry of Mines and Energy's Secretary of Petroleum, Natural Gas, and Renewables, Jose Lima Neto, told Econoff that the situation was very worrisome. Given the Brazilian dependence on Bolivian gas, a disruption in supply could have serious economic consequences. Lima Neto reported that Petrobras had been contacted by the opposition actors in Bolivia to say that they had nothing against Petrobras or Brazil and, despite the threat to Morales, would try to avoid taking actions that would be damaging. Lima Neto agreed that the fact that the initial efforts to turn off the gas flow had not cut off the supply entirely could be reflective of the opposition's efforts to threaten Morales without causing undue damage to their neighbors and business partners. Lima Neto noted that any disruption would be harmful not only for Brazil but for the Bolivian economy as well, and said he hoped that fact would make the situation self-limiting.

¶4. (C) During the meeting with Econoff, at approximately 1:00 (noon Washington, DC time) September 10, Lima Neto took a call conveying the news that Brazil had just experienced a 2 million cubic meters decrease from the normal natural gas flow from Bolivia of 30 million cubic meters (Note: this coincides with reports about an explosion connecting a major Petrobras field to the pipeline in Tarijia, see Reftel H on same subject. News reports on September 11 say the flow has now decreased by three million cubic meters and suggest the decrease could last for ten to fifteen days. The situation remains fluid and Congen Sao Paulo is now hearing rumors of a fifty percent reduction in flow. End Note). He said his next task would be to convene a group for contingency planning. According to Lima Neto, there are already draft plans in place for how to compensate for a sudden loss of gas supply, which includes using alternate fuels to power some electrical stations, for instance liquid fuels, as well as increasing production in some of the coal powered thermal plants. As a result of a shortage in available gas in October of 2007, Brazil has already had an opportunity to put some of these plans into practice but Lima Neto was less than sanguine about the ability of the existing plans to compensate for a continued interruption in the gas flow. While noting that Brazil could weather a short term decrease in supply without too much economic disruption, he admitted that a more drawn out scenario could result in rationing. (Note: One mitigating factor in a potential electrical crisis could be that following an abundant rainy season, Brazil's reservoirs are better prepared to meet demand. Over 80 percent of Brazil's electrical supply comes from hydro power, with ten percent coming from natural gas. The fact the oil prices have gone down recently and that the threat comes at during the seasonal decline in energy usage might help on the electrical supply side as well.)

¶5. (C) Were the interruption in gas supply to be serious, it would be industrial output that would suffer the most. In Rio Grande do Sul, nearly 100% of industrial production requires gas and in Sao Paulo itself, the number is close to 60%. The 2007 annual survey by the Sao Paulo State Industry Center of its 551 company members conducted in November 2007 showed that more than 38 percent of natural gas consumption is used by Sao Paulo industry. The study showed that the lack of natural gas would boost production costs by about 10 percent on average. Furthermore, the Federation of Industries of Sao Paulo (FIESP) reported that an eventual natural gas shortage would totally interrupt 19 percent of Sao Paulo industries, 20 percent of industries would be partially affected with the absence of natural gas, and 61 percent could substitute another fuel for natural gas if there was a shortage. (See Reftel B for more information on natural gas in Brazil.) Several industries including chemicals (30 percent), textiles (28 percent), and ceramics (26 percent) rely heavily on natural gas as their primary energy source.

¶6. (C) COMMENT: Since Evo Morales' attempts to nationalize Petrobras' gas investments in Bolivia and dictate a contract price, Brazil has been aware of the need to move away from dependence on Bolivian gas, as well as diversify their energy matrix. For primarily political reasons, Brazilian President Lula has committed to an additional $1 billion dollars worth of gas investments in Bolivia over the next five years. It is unclear whether recent

events will have an impact on future plans. Last year, Brazil launched plans to build three liquefied natural gas (LNG) regasification terminals, the first of which Petrobras inaugurated in August at the Port of Pecem, which is capable of supplying 7 mm3/d of natural gas. The terminal adds another 11 percent to Brazil's natural gas supply and equals about half of the natural gas consumption destined to Brazil's gas-fired power plants and more modest increases in capacity are expected for 2009. The new discoveries of oil and gas reserves at pre-salt levels (more than 4000 meters below the surface) in the Santos Basin, provide hope for a larger increase in the long term. In the near term, Brazil will hope that the current interruption is limited and short-lived. Ample water reserves and new LNG and bioelectricity capacity (Reftel G) will help them avoid shortages in electrical supply but Brazil will need to ensure that the disruption is limited to avoid damage to industrial output. We also expect that this will provide added incentive for Brazil to continue to try to develop sources such as bioelectricity so as not to be subject to the whims of Morales and now, his opposition. END COMMENT

¶7. (U) This cable has been coordinated with U.S. Embassy La Paz, Congen Sao Paulo, and Congen Rio.

SOBEL